

**AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES**

Affiliated with AFL-CIO

1325 Massachusetts Avenue, N.W., Washington, D. C. 20005



**STATEMENT OF**

**KENNETH T. BLAYLOCK  
NATIONAL PRESIDENT  
AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES  
AFL-CIO  
AND  
PUBLIC EMPLOYEE DEPARTMENT, AFL-CIO**

**BEFORE THE**

**COMMITTEE ON POST OFFICE AND CIVIL SERVICE  
HOUSE OF REPRESENTATIVES**

**ON**

**DEVELOPMENT OF A SUPPLEMENTAL  
FEDERAL CIVIL SERVICE RETIREMENT PLAN**

**MARCH 6, 1984**

Mr. Chairman, I appear here today in my dual role as the President of the Public Employee Department, AFL-CIO, and as the National President of the American Federation of Government Employees, which represents over 700,000 federal employees nationwide.

The members of this Committee are well aware that federal employee unions opposed bringing new federal employees under Social Security. Our opposition was shared by virtually all federal employees. However we were not able to prevail on this issue.

I think underlying all of our opposition, was the concern that once two classes of federal employees were created in regard to retirement, their retirement plans would be picked off one-by-one, with one group of employees pitted against the other. The end result would be lower retirement benefits for all employees. Virtually all Congressional members indicated that that was not the intent of the Social Security Amendments. We hope that is the case.

With the design of the supplemental retirement system, the assurances federal employees were given will be put to a test.

On September 20, we came before this Committee to testify on the problem of dual contributions for new employees. At that time we stated the principle which continues to guide us in this

process of defining a supplemental retirement system: "Overall, the supplemental system (when combined with Social Security) should provide comparable levels of benefits as the current system with the same level of contributions from the employee." We continue to believe that this should be the guiding light in the difficult and complex problems of the design of the supplemental system.

This principle should supersede any comparisons with the private sector retirement plans. Retirement is part of a compensation package. At a time when all unbiased observers (for instance, the Congressional Budget Office and the Congressional Research Service) find that federal compensation is below private sector compensation, there is absolutely no reason to set federal retirement benefits solely on the basis of private sector practice. Of course, this does not mean that private sector retirement plans should not be surveyed to investigate innovative plan designs, relevant integration formulas, types of benefits, etc.

Aside from the level of benefits, there is the issue of a defined benefit plan (like the current Civil Service Retirement System) or a defined contribution plan. From a worker's point of view, retirement plans serve one basic function -- to provide financial security in their elder years. Although we recognize certain benefits from defined contribution plans (e.g. portability), they do not fulfill the prime function of providing this security.

In the private sector, defined contribution plans essentially shift the risk from the employer to the employees. Some employees will gain; some will lose, but when the goal is security this is not a zero-sum game. The fact that one retiree "has made it big" does not help the individual who's retirement income is insufficient to pay his or her bills.

From a personnel management perspective, a defined contribution plan by increasing portability would work against the employer's need to maintain a stable, skilled workforce.

Given the security needs of retirees we strongly favor a plan based on a defined benefit base.

This need for income security in retirement also leads us to unconditionally back full COLA protection for benefits paid under the supplemental plan. Retirees, whether on Social Security or Civil Service Retirement are some of those least able to bear the burden of inflation. In fact, given this commonality of interest and need, we would strongly recommend that Congress legislatively link the COLA adjustment in the supplemental plan to the COLA adjustment in Social Security.

Given a defined benefit plan based on the aforementioned principles, we would be happy to work with the Committee in establishing a "defined contribution" or thrift plan as an addition to the basic plan to provide increased flexibility for employees.

This increased flexibility would be especially helpful for federal employees in the higher grades who have the discretionary income to participate in individual retirement plans. Individuals in lower grades, in general, do not have this option. This is even more relevant given the seemingly endless stream of pay caps and the resulting every-widening comparability gap. It is for this reason, we favor keeping at least part of the Social Security tilt toward lower income groups in the integrated system.

As our previous comments indicate the design of the supplemental system is a difficult and technically complex process. We fully approve and commend the deliberative process which this committee has undertaken in constructing what will eventually become the largest retirement system in this country.

The supplemental plan will, of course, have great impact, not only on the ability of federal retirees to live in dignity in their old age, but also on the personnel management, recruitment, and retention of federal employees. The existing Civil Service Retirement System has allowed the federal government to maintain continuity in federal employment as well as providing the flexibility to provide the needed infusion of new blood and fresh personnel into the federal civilian workforce.

The function of a retirement plan as a personnel policy has played a special role in regard to positions such as law enforcement officers and federal fire fighters which will have to be addressed in the supplemental plan as well.

On the question of the organizational structure, we believe that the new employees' supplemental retirement plan should remain part of

the existing Civil Service Retirement System. Dual systems would require dual administrative expenses, dual reporting requirements, etc. In addition, all federal employees should have a common interest in a common retirement system. By keeping both groups in the Civil Service Retirement System, it aids in the financing of both plans. This would also facilitate providing current employees with the option to transfer into the supplemental system if they so desire.

We would recommend that a Board of Trustees for the Civil Service Retirement System be set up with representatives from federal employee unions, the private sector, Congress and the Executive Branch. This Board would be responsible for general policy, administration, and oversight. One of the major reasons for the recommendation of such a broad based board is to restore credibility to the system. There are currently so many myths, distortions, and confusion about the Civil Service Retirement System that neither the employees or the general public understands it or has any confidence in the program. This state of misinformation has left the Civil Service Retirement System vulnerable to demagogic attacks and propaganda. This Board could also investigate and develop alternative investment strategies or other financial arrangements which could strengthen the existing and future retirement systems.

A key concern for federal employees is the cloud of uncertainty hovering over their retirement years. We encourage this Committee to investigate any and all means of insulating from the political process the financing and benefits of retirement system for federal employees. As long as retirement systems are outside a collective bargaining framework it is not fair to federal employees to have the

retirement benefits they have earned come under attack every time this country runs into economic difficulties.

#### SUMMARY

The first task for Congress in the development of the new staff retirement plan is to clarify the purposes and functions the plan is intended to fulfill. Equity between current and future federal employees, the need for the federal government to attract and retain top quality personnel, the necessity of addressing the unique retirement needs of law enforcement personnel, federal fire fighters and other unique jobs, and comparability between federal and private sector compensation are just some of the criteria which need to be weighed in this process.

Our recommendations on these issues are as follows:

1. The supplemental system (when combined with Social Security) should provide comparable levels of benefits as the current system with the same level of contributions from the employee. This includes maintaining the existing age and service requirements under the Civil Service Retirement System.
2. Comparisons with the private sector should take into account the fact that retirement is only one part of a compensation package and that federal employees are significantly behind the private sector in the areas of pay, health benefits and other ancillary benefits.
3. The Retirement Plan should be a three tier system with the first two tiers composed of Social Security and the supplemental retirement plan. These first two tiers

should provide benefits and contributions at comparable levels to the existing system. The third tier should provide for a voluntary defined benefit or thrift plan, which would be an addition to the first two tiers.

4. The first two tiers of the supplemental system should be on a defined benefit basis.
5. Full COLA protection should be provided for the benefits of the first two tiers. This COLA adjustment should be legislatively linked to the COLA adjustment in Social Security.
6. At least part of the Social Security tilt toward lower income groups should be maintained in the integrated system.
7. The supplemental plan should provide current employees the option of transferring into the new system if they so desire.
8. A Board of Trustees for the Civil Service Retirement System should be established with representation from federal employee unions, the private sector, Congress and the Executive Branch with general policy, administrative, and oversight responsibilities
9. The supplemental retirement plan should remain part of the existing Civil Service Retirement System.

I thank you for the opportunity to appear before your Committee to testify on this important subject.